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Dev

(1949) Department.

H/S SERIES

G.O. No. 5883

Dated 14.12.48

[Despatch Abstract.]

Coop. Soss.--Land Mortgage Banks - Madras Coop. Central Land Mortgage Bank Ltd., Debentures - Govt. guarantee present position - Reserve Bank of India - Approved.

Dev.C.No.83874 B.III/49. Development Department.

Copy of Memo. No. 55809-B.III/49-2, dated 22-6-49 addressed to the Registrar of Cooperative Societies.

Sub: Cooperative Societies - Land Mortgage Banks - Central Land Mortgage Bank - Debentures - Government guarantee - Increase from Rs.450 lakhs to Rs.550 lakhs.

Ref: From the Registrar of Cooperative Societies Letter No.Rc.67200/49-J dated 24-5-1949.

In his letter cited, the Registrar of Cooperative Societies has proposed that the maximum guarantee given by the Government in respect of the debentures issued by the Madras Cooperative Central Land Mortgage Bank Limited may be increased to Rs.550 lakhs. The Reserve Bank of India has suggested that the maximum upper limit for this guarantee be fixed at Rs.5 crores and this limit will be exceeded by the proposed enhancement. It was expected that a stage would be reached when the business of the Madras Cooperative Central Land Mortgage Bank Limited would be stabilised without any increase in the Government guarantee. In other words, new loans should be met fully from repayments and the amount of debentures redeemable every year should be equal to the amount of debentures floated, a fresh issue of debentures resulting in no further increase. Now that the maximum upper limit suggested by the Reserve Bank of India viz. Rs.5 crores is to be exceeded, the Registrar is requested to examine this aspect and to report when approximately such an equilibrium between receipts and issues will be reached by the Central Land Mortgage Bank.

/True copy/

Superintendent.

Copy of letter R.C.No. 67200/49-J dated 10-8-49 from the Registrar of Cooperative Societies, Madras to the Secretary to Government, Development Department,Madras.

Sub: The Madras Central Land Mortgage Bank - Government guarantee - increase - Proposals.

Ref: Development Memo. No.55809 B.III/49-2 dated 22-6-1949.

I invite the attention of Government to their letter No. 1348 (MS) dated 4-7-42 to the Reserve Bank of India. They rejected in that letter the Reserve Bank's suggestion that Government guarantee should be limited to 5 crores. They stated that any declaration made by them in regard to the maximum limit of their guarantee would have no practical value. Later, in my letter No. 20579/46-J dated 28-9-47 the entire question of Government's guarantee of Central Land Mortgage Bank debentures was discussed in the light of the political changes, and Government accepted in their Order (Ms)

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Order (Ms) No.5597, Development, dated 3-12-47 that there was need for the continuance of the guarantee. I submit therefore that the question of determining the maximum amount of the guarantee is not of any practical value.

2. In a progressive institution like the Central Land Mortgage Bank, the debentures redeemable every year cannot be equal to the amount of debentures floated; for, the amount of debentures issued is determined by the demand for loans, and this demand has been increasing year after year as will be evident from the amount of loans issued by the Central Land Mortgage Bank during the last 5 years:-

1944-45	Rs.24.77 lakhs.
1945-46	42.78 "
1946-47	47.66 "
1947-48	61.55 "
1948-49	77.72 "

When the demand for loans has been increasing every year, 'borrowings' should inevitably go on increasing. The Central Land Mortgage Bank will therefore have to float debentures far in excess of the limit of Rs.5 crores in coming years. If the guarantee is restricted to the 5 crore limit, many agriculturists in need of long term money will have to go without it. Personally, I do not believe that an equilibrium will be reached between the volume of debentures maturing and the volume of debentures to be floated; for, we are not in a static world. Conditions are changing rapidly. New needs arise. The scarcity of food has given a spurt to land improvement loans which were practically unknown to the bank in earlier years. Richer ryots have come to borrow loans upto Rs.15,000/- each. The tightness of the money market leads to indebtedness and this leads to loans for the discharge of prior debts. I, therefore, submit that the question of fixing the limit of the guarantee is not a practical proposition. At any rate, it need not be considered for the present.

Sd. J.C. Ryan,
Registrar.

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GOVERNMENT OF MADRAS

Development Department.

Memo. No. 83874-B.III/49-1, dated 26-8-1949.

Sub: Cooperative Societies - Land Mortgage Banks - Central Land Mortgage Bank - Debentures - Government guarantee - Increase.

Ref: Letter from the Registrar of Cooperative Societies, No. 67200/49-J dt. 10-8-49.

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The attention of the Registrar of Cooperative Societies is invited to paragraph 6 of his letter No.2906/40-J dated 5-4-42 disposed of in G.O.No.1347, 48(Ms) Development dated 4-7-1942. He stated therein that the President of the Madras Cooperative Central Land Mortgage Bank then estimated a net annual increase in the value of debentures in circulation of only Rs.20 lakhs and expressed the view that it would take 12 years by the time the amount reached Rs.5 crores and that, by that time, the amount of debentures redeemable every year would be equal to the amount of debentures floated, a fresh issue resulting in no further increase. The Registrar, however, now states that this position cannot be reached for the reason that the demand for loans from land mortgage banks has been increasing during the last 5 years and will further increase in the coming years on account of the new factors mentioned by him. In order to determine whether and, if so, when the Central Land Mortgage Bank will be able to reach the stage of equilibrium between receipts and issues, the Registrar is requested to prepare and forward an approximate foreeast showing the value of debentures maturing and the value of debentures to be floated (after allowing for increased demand for loans) every year during the next ten years.

Sd. x x
Secy. to Government.

To

The Registrar of Cooperative Societies.

Copy of letter No. 67200/49-J dated 21-9-49 from the Registrar of Cooperative Societies, Madras to the Secretary to Government, Development Department, Madras.

Sub: Cooperative Societies - Land Mortgage Bank - Central Land Mortgage Bank - Government guarantee - Increase.

Ref: Development Memo. No. 83874 B.III/49-1, dated 26-8-49

In the memorandum cited above, Government have invited my attention to paragraph 6 of my predecessor's

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predecessor's letter No.Rc.2906/40-J dated 5-4-42 in which it was then estimated that an equilibrium would be reached between the amount of debentures redeemable every year and the amount of debentures floated. But in paragraph 2 of Government's letter No.1348 Ms. dated 4-7-1942 addressed to the Reserve Bank, Government observed that it was impossible to say when this equilibrium between receipts and issues would be reached. Therefore, the preparation of an approximate forecast showing the value of debentures maturing and the value of debentures to be floated every year within the next ten years does not appear to be practical.

2. In my letter dated 10-8-49, I indicated one important factor why such an equilibrium might not be reached viz., the demand for loans increasing on account of increased demands for land improvement, on account of the demand for large loans going up to Rs.15,000/- and on account of the growing rural indebtedness arising from the present tightness of the money market. I should add that there are other factors which have arisen since 4-7-42. In G.O. No.Ms. 3433, Development, dated 9-9-46 Government allowed the Central Land Mortgage Bank to reloan advance collections to the tune of Rs.64.69 lakhs. This enables the Bank to avoid floating debentures to the extent of this amount. More advance collections will be coming in, in years when agricultural produce fetches high prices. When agricultural produce will fetch high prices, it will be difficult to forecast as to the future trends. While increased in loan applications enhances the demand for debentures, the availability of advance collections will curtail the floatation of debentures. Further, we cannot proceed on the basis that debentures will be retired only on the expiry of 20 years. Under section 4 (b) of the Land Mortgage Bank's Act, they can be retired between the 10th year and the 20th year. If advance collections are handsome and if the bank finds it advantageous to retire debentures rather than reloan the advance collections, more debentures will be retired than we can estimate now. Again, the Bank itself is purchasing and cancelling debentures from time to time even before the expiry of ten years from the dates of issue (vide G.O.No. Ms. 4964 dated 27-10-47) not only with the help of advance collections but also with the funds in Debenture Redemption sinking fund accounts. It may be argued that the increased demand for new debentures arising from the issue of more loans would be set off by the retirement of old debentures and by the avoidance of floating new debentures by resorting to reloaning. But the actual reloaning will depend on the conditions of the money-market. If debentures can be had cheap in the money market, the Bank will decide not to miss the opportunity but float debentures and get the money at cheap rates postponing reloaning to a date when money is dear to obtain in the shape of debentures. Similarly, the Bank may refrain from retiring old debentures when new debentures cannot be raised at a favourable price. All these factors make it impossible to ascertain with any degree of accuracy the year in which the total amount of debentures issued will equal the amount of debentures redeemable.

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3. I have gone through the letter of the President of the Central Land Mortgage Bank referred to by the Government. It is based on a rough and ready calculation to which we cannot even attach a degree of approximation. In the circumstances explained above, I do not think it is possible to prepare any reliable forecast for the next ten years It seems to me that it will lead us nowhere. If Government should still consider that such a forecast should be prepared, I shall do so. It will help if Government indicate the columns under which the figures should be furnished providing for the disturbing factors mentioned in paragraph 2 above.

Sd. x x
for Registrar.

GOVERNMENT OF MADRAS

Development Department.

Letter No.(Ms.) 5883, dated 14-12-1949.

To

The Officer-in-charge,
Reserve Bank of India,
Agricultural Credit Department;
Bombay.

Sir,

Sub: Cooperative Societies - Land Mortgage Banks - Madras Cooperative Central Land Mortgage Bank Ltd. - Debentures - Government guarantee.

Ref: Your letter Ref.No. AC.D.2027/Ac.122-42 dated 24-12-1942.

I am directed to invite attention to the correspondence ending with your letter cited on the subject mentioned above.

2. In its letter Ref.No. Co.259/16-4 dated 9-10-1941, the Reserve Bank of India stated that the Madras Cooperative Central Land Mortgage Bank Ltd., was working on sound lines and that, as a result of the several steps taken by that Bank to accelerate the building up of its reserves it should be able to attain a position within 3 or 4 years' time when it could issue its debentures without a Government guarantee. The Reserve Bank therefore then suggested that this Government might fix at least provisionally a maximum limit round about Rs.5 crores, beyond which they would not be prepared to guarantee the Central Land Mortgage Bank's debentures and in the meanwhile to ensure through the Registrar's control that by the time that limit was reached, the Bank became strong enough to inspire confidence among the investors and to attract money to its debentures without a Government guarantee. In their letter No. 1348 (Ms) Development, dated 4-7-1942, this Government informed the Reserve Bank that the actual value of the Central Land Mortgage Bank's debentures

debentures guaranteed and outstanding on 31-1-42 was Rs.264.43 lakhs, that this position had been reached in about 12 years' working of the Bank and that as the cream of the business had probably been taken off, it was not unlikely that the rate of development would slow down. At that time, there had been also a progressive increase in advance repayments of principal and it was then anticipated that such growing advance repayments would gradually reduce the net annual increase in the value of debentures in circulation and that a stage would be reached when safe business on the then existing lines would be stabilised; that is to say, the amount of debentures redeemable every year would be equal to the amount of debentures floated, a fresh issue resulting in no further increase. The Reserve Bank was also then informed that it was impossible to say when such an equilibrium between receipts and issues would be reached but that it would be many years before the limit of Rs.5 crores was approached.

3. In May last, the Registrar of Cooperative Societies proposed that the maximum amount of the guarantee given by the Government in respect of the debentures issued by the Central Land Mortgage Bank be increased from Rs.450 lakhs to Rs.550 lakhs. As this exceeded the maximum limit suggested by the Reserve Bank of India, viz. Rs.5 crores, the Registrar was asked to report when approximately the equilibrium between receipts and issues referred to in paragraph 2 above would be reached by the Central Land Mortgage Bank and also to prepare and forward an approximate forecast showing the value of debentures maturing for redemption and the value of debentures to be floated (after allowing for increased demand for loans) every year during the next ten years. The Registrar has stated that in a progressive institution like the Central Land Mortgage Bank, the debentures redeemable every year cannot be equal to the amount of debentures floated, that the demand for loans has been increasing year after year and that as conditions are changing rapidly and new needs are arising, there is no proppect of attaining an equilibrium between receipts and issues. In addition to the demand for loans increasing on account of more loans for land improvement and larger loans being upto Rs.15,000 in individual cases and on account of the growing rural indebtedness arising from the present tightness of the money market, there have been other factors introducing a change in the position as envisaged in paragraph 2 above. The Central Land Mortgage Bank has since been permitted to reloan advance collections to the tune of Rs.64.69 lakhs. More advance collections will be coming in, in years when agricultural produce fetches high prices. Where increase in loan applications enhances the demand for debentures, the availability of advance collections will curtail the floatation of debentures. The debentures need not necessarily be retired only on the expiry of 20 years but may be redeemed between the 10th and the 20th year. The Bank may therefore retire debentures rather than reloan the advance collections, if it finds such a course more advantageous. The Bank is also purchasing and cancelling debentures from

p.t.o.

from time to time with the money accumulated in its sinking funds. It may be argued that the increased demand for new debentures arising from theix issue of more loans would be set off by the retirement of old debentures and by the avoidance of floating new debentures by reloaning. But the actual reloaning will depend on the conditions of the money market and if debentures fx can be floated cheap in the money market, the Bank will naturally prefer to do so and postpone reloaning to such time when money is dear to be obtained in the shape of debentures. Similarly, the Bank may refrain from retiring old debentures, when new debentures cannot be issued at a favourable rate of interest. The Registrar considers that all these factors make it impossible to ascertain with any degree of accuracy the year in which the total amount of debentures issued will equal the amount of debentures redeemable and that any forecast prepared for the next ten years is not practicable and will lead nowhere. In view of the difficulties pointed out by the Registrar, the Government have decided to drop this issue for the present.

4. In December 1947, the present Government carefully considered the question of the future policy to be adopted by them in regard to their guarantee of the debentures issued by the Central Land Mortgage Bank and decided that such agu guarantee should be continued for some more time. Prior to this decision, aq the accepted policy of the Government had been to guarantee the Central Land Mortgage Bank's debentures for the time being in the expectation that, when the Bank became well established and enjoyed the full confidence of the public, the necessity for the guarantee would cease to exist. This view overlooked the fact that the debentures have been made 'trustee securities' only by virtue of this Government's guarantee and that if future issues cease to be "trustee securities", the classes of investors who hold most of the existing issues would cease to be able to invest in future issues, unless and until the Government of India were prepared to make the debentures "trustee securities" on their own merits without a Government guarantee. This they are unlikely to agree to do. This Government therefore considered that their guarantee should continue and at the same time instructed the Registrar to exercise a very careful watch and control over the affairs of the Central Land Mortgage Bank at all times, in order to avoid any possible risk of loss to the Government arising on account of their guaranteex of such a large amount outstanding in debentures.

5. This Government have now raised the maximum amount of their guarantee in respect of the debentures issued by the Central Land Mortgage Bank from Rs.450 lakhs to Rs.550 lakhs. In view of the previous correspondence with the Reserve Bank of India on the subject and also as the maximum limit suggested by it viz., Rs. 5 xxx crores, has been exceeded, I am directed to apprise the Reserve Bank ~~of India~~ of the present position as set out above.

Yours faithfully,

Sd. x x
Secy. to Government.

Copy to the Registrar of Cooperative Societies,
with reference to his letter
No.Rc.67200/49-J, dated 21-9-1949.

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NOTE FILE. DEVELOPMENT DEPARTMENT.

SUMMARISING NOTE.

The Registrar of Cooperative Societies has separately proposed that the guarantee of the debentures issued by the Central Land Mortgage Bank may be increased from Rs.4,50 crores to Rs.5.50 crores.(This has been accepted and the necessary resolution was passed in the Legislative Assembly on 7-11-1949). As this exceeded the maximum limit suggested by the Reserve Bank of India viz., Rs.5 crores, the Registrar was asked to examine whether a stage would be reached when the amount of debentures redeemable every year would be equal to the amount of debentures floated, a fresh issue of debentures resulting in no further increase. The Registrar has stated that in a progressive institution, like the Central Land Mortgage Bank, the debentures redeemable every year can not be equal to the amount of debentures floated, that the demand for loans has been increasing year after year and that as conditions are changing rapidly and new needs are arising, there is no prospect of attaining an equilibrium between receipts and issues. In view of the increase in the demand for large loans in the recent years, the Registrar of Cooperative Societies considers that it is not advisable to limit the guarantee to Rs.5 crores and states that the question of fixing a limit for the guarantee is not a practical proposition and that, at any rate, it need not be considered for the present. In order to determine whether, if at all, the Central Land Mortgage Bank will be able to reach an equilibrium between receipts and issues, the Registrar was asked to prepare and forward an approximate forecast showing the value of debentures maturing for redemption and the value of debentures to be floated (after allowing for increased demand for loans) every year during the next ten years. For the reasons explained in paragraph 2 at p.7 c.f., the Registrar states that the preparation of such a forecast is not practicable and that it will lead nowhere. This Deptt. agreed with the Registrar and considered that the matter might be dropped for the present. The Finance Department have agreed with this view but suggest that the Reserve Bank may be apprised of this position and asked whether there is any serious objection to the Government guarantee exceeding the limit of Rs..5 crores previously suggested by it. The correspondence with the Reserve Bank of India on this subject was closed with this Government's letter No.(Ms) 2546, dated 4th December 1942, in which the Government adhered to their view not to set a maximum limit for their guarantee of the Central Land Mortgage Bank's debentures, and also informed the Reserve Bank that if it could not see its way to consider applications for the grant of financial accommodation on these debentures, the Government were prepared to drop the matter. Subsequently, the question of fixing a maximum limit was carefully considered by the present Government in all its aspects and they decided that the guarantee should be continued for some more time. In this connection, attention is invited to paragraphs 7 and 8 of the Registrar's letter at pp.5-6 c.f.

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Although the the advice of the Reserve Bank is not helpful, as a piece of formality, we may inform the Reserve Bank of our decision.

Sd. xxxx

of G.O.No.5597 (Ms.), Development, dated 3-12-1947, in which the Registrar has commented on the attitude of the Reserve Bank in this matter. It is therefore for orders whether the suggestion of Finance to bring the Reserve Bank into the picture again will be accepted.

Sd. x x 9-10-49. S. The Reserve Bank may be apprised of the position.

Sd. x x 10-11-49.

Sd. x x 17/11 H.M.(LA.)

Sd. xx 22-11- H.M.(Fin.)

Development Dept.

To Asst.Secy.

Please see the orders in circulation at page 9 above. A draft letter to the Reserve Bank is put up below for approval. Finance may see before issue.

Sd. x x
9/12/49. Fin.

Dev.U.O.No.83874 B.III/49-3,dt.9-12-49.

Fin.(Exp.A)Dept.

(Previous Finance Note on pp.5-7 above)

The orders in circulation on page 9 above and the draft letter to the Reserve Bank of India below may be perused.

Sd. x x
10/12/49. ~~Dev.~~

Fin.U.O.No.83616 EA-1,dt.12-12-49.

Development Dept.

The draft letter below may now issue.

Sd. x x
13-12-49.

D.S. Sd. x x x
14-12-49.

(Issued as Lr. (Ms.) No.5883, Development, dated 14-12-1949).

/True copy/

R. Thiagarajan 13.11.53

Office Assistant,
Madras Record Office.

PSR. 13-xi-53.

13/11/53 13.11